

AR17

**NORTHERN TAR,
CHEMICAL AND WOOD
LIMITED**



NORIAR

INTERIM REPORT
JUNE 30, 1969

File

To the Shareholders:

Unaudited net earnings for the first six months were substantially lower than for the same period in 1968 due chiefly to extraordinary costs incurred by the disruption of operations since last November when the Company's principal sawmill burned. Although the Company was fully insured for the loss of both the equipment and related profits (see note on earnings statement), the latter claim covered only the period necessary to repair the old building. Your Directors decided, however, to replace the sawmill with the most modern and sophisticated equipment available. Since the indemnity period expired March 11th, and the new mill was not in operation until mid August, the Company had to bear substantial expenditures to retain its customers and maintain its volume of business.

Earnings were also affected by the declining business in our Saskatchewan plant. Management is actively pursuing alternate courses of action to improve operating costs and diversify product lines.

We expect that second half earnings will show substantial improvement over first half and that, over the longer term, the greater capacity of the new mill will contribute to increasing profitability.

R. J. PRETTIE,
PRESIDENT

August 25, 1969

NORTHERN TAR, CHEMICAL AND WOOD LIMITED AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF EARNINGS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 1969
(With comparative figures for 1968)
(Unaudited)

	1969	1968
Sales	\$4,088,838	\$4,008,027
Cost of Sales (Note 1)	3,490,922	3,310,903
Gross Earnings From Operations	597,916	697,124
Operating Expenses		
Administrative and General	220,574	213,133
Directors' and Senior Officers' Remuneration and Expenses	47,679	53,565
Depreciation	124,856	114,430
	393,109	381,128
Net Earnings From Operations	204,807	315,996
Financial Expenses		
Debentures—Interest	61,887	32,304
—Amortization of Financing Costs	4,089	3,960
Other Interest and Discounts	46,932	44,681
	112,908	80,945
	91,899	235,051
Other Income	7,632	11,552
Net Earnings Before Income Taxes	99,531	246,603
Provision For Income Taxes		
Income Taxes Payable	23,028	96,198
Deferred Income Taxes Payable	31,143	19,306
	54,171	115,504
	45,360	131,099
Non-Recurring Loss	—	13,335
Net Earnings For The Period	\$ 45,360	\$ 117,764

Note 1 — Unadjusted Business Interruption Insurance: In November a fire destroyed the main lumber sawmill of a subsidiary. The unadjusted business interruption insurance claim recorded in the accounts is subject to the approval of the underwriters. The portion of the claim applicable to the six months ended June 30, 1969 of \$253,968 has been credited to cost of sales.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 1969
(With comparative figures for 1968)
(Unaudited)

	1969	1968
Source of Funds		
Net Earnings for the Period	\$ 45,360	\$ 117,764
Add: Charges Deducted Therefrom, Not Requiring an Outlay of Funds		
Depreciation	124,856	114,430
Deferred Income Taxes	31,143	19,306
Amortization of Financing Expense	4,089	3,960
Investments and Deposits Written-off	—	18,335
Total Funds From Operations	205,448	273,795
Other		
Issue of Common Shares Under Option Agreement	3,540	—
Special Refundable Tax	586	—
Forgivable Loan—Ontario Development Corporation	34,186	—
Insurance Proceeds	255,282	—
Chattel Mortgage	50,000	—
	549,042	273,795
Application of Funds		
Fixed Assets Purchased (Net)	804,468	169,515
Long Term Debt Retirement	23,750	95,000
Redemption of Preference Shares	22,875	16,050
Dividends—Common Shares	83,817	83,680
—Preference Shares	27,963	28,759
Financing Costs	18,140	—
Special Refundable Tax	—	369
Adjustments Applicable to Prior Years	—	2,078
	981,013	395,451
Decrease in Working Capital	431,971	121,656
Add: Working Capital, January 1	1,775,579	1,301,518
Working Capital, June 30	\$1,343,608	\$1,179,862

Sub

**NORTHERN TAR,
CHEMICAL AND WOOD
LIMITED**



NORTAR

**ANNUAL REPORT
1969**



Digitized by the Internet Archive
in 2023 with funding from
University of Alberta Library

https://archive.org/details/Nort0915_1969

DIRECTORS

J. S. GAIRDNER J. H. GAIRDNER J. H. HAWKE
C. W. LEONARDI, C.A. W. J. R. PATON R. J. PRETTIE D. G. SINCLAIR

OFFICERS

R. J. PRETTIE — *Chairman of the Board*
D. G. SINCLAIR — *President* W. R. PARKS — *Vice President & General Manager*
F. HEDLEY — *Vice President, Woods Operation* R. J. HARTVIKSEN — *Secretary*
D. B. CARON, C.A. — *Treasurer* C. H. HOLLINGSHEAD — *Assistant Secretary*
R. E. JOHNSON — *Assistant Secretary*

TRANSFER AGENT AND REGISTRAR

THE ROYAL TRUST COMPANY — Toronto, Montreal, Winnipeg and Vancouver

AUDITORS

CLARKSON, GORDON & Co., (*Chartered Accountants*), Thunder Bay, Ontario

NORTHERN TAR, CHEMICAL AND WOOD LIMITED

NORTHERN WOOD PRESERVERS, LIMITED

NORTHERN FOREST PRODUCTS LTD.

NORTHERN WOOD PRESERVERS (SASKATCHEWAN) LIMITED

HEAD OFFICE: Thunder Bay, Ontario

PLANTS: Thunder Bay, Prince Albert

SALES OFFICES: Thunder Bay, Prince Albert, Toronto

NORTHERN TAR, CHEMICAL AND WOOD LIMITED

HIGHLIGHTS

	<u>1969</u>	<u>1968</u>
Sales - - - - -	<u>\$8,495,284</u>	\$8,963,711
Earnings before taxes and extraordinary items - - - -	266,045	793,852
Provision for income taxes - - - - -	138,467	413,876
Extraordinary Items - - - - -	108,378	(13,335)
Net earnings - - - - -	235,956	366,641
Net earnings per share after payment of preferred dividends	43¢	74¢
Preferred dividends paid - - - - -	55,338	57,190
Common dividends paid - - - - -	83,940	167,460
Retained earnings - - - - -	968,757	867,455

REPORT TO THE SHAREHOLDERS

General credit restrictions and rising interest and labour costs that affected the building industry in 1969, particularly in the United States, were reflected in your Company's operations by declining sales and earnings. More particularly, the products of our new mill, which came into production in August, reached the market too late for the boom market in lumber. While it is anticipated that the construction slowdown is temporary, our heavy reliance on the demand for lumber will tend to cause year end results to fluctuate with the economy of the general construction industry. However, a degree of diversification will be maintained by production and treatment of railway ties and poles.

Net earnings for the year amounted to \$235,956 (including extraordinary items of \$108,378), or 43 cents per share compared to \$366,641 or 74 cents per share for the previous year. Sales were \$8,495,284 compared to \$8,963,711 in 1968.

In accordance with our planned expansion program, net capital expenditures were \$1,136,110, resulting in a decrease in working capital of \$436,049 in 1969.

Preference share dividends of \$55,388 were paid during the year and \$83,940 or 20 cents per share paid on common shares before dividends on common shares were deferred in the last two quarters.

The main saw mill, destroyed last year by fire, has now been replaced with the most modern, automated equipment available in North America. Insurance claims described in the notes to the financial statements made a substantial difference in the Statements of Earnings and of Source and Application of Funds. All claims have been settled as of the year end. However, because of the considerable upgrading of the new equipment and the longer period of time required for its installation, insurance claims did not adequately cover the replacement cost nor did the indemnity dates cover the full period of business interruption.

Training of staff for the operation of the new plant, technical adjustments to the equipment and start-up costs are now behind us. The completion of the new mill, along with the new treating retort that came into operation this year, should result in increased output, greater efficiency and additional earnings when these plants are utilized to their full capacity.

Sales from the Tar and Chemical Division were the lowest in many years and we are watching this division very closely in terms of outlook. We are encouraged by a considerable backlog of orders for the production and treatment of railway ties and poles. Saskatchewan operations are not yet showing encouraging results and we are paying special attention to this division.

We are pleased to announce several executive changes in our organization. Your President has become Chairman of the Board in the place of Mr. J. S. Gairdner who will remain a Director of the Company. Mr. D. G. Sinclair has been appointed President and a Director. Mr. S. F. Mack has retired as Vice President and Director but will continue his association with the Company in an advisory capacity. Mr. W. R. Parks who has had an extensive background in many phases of forestry and forest products and most recently was Deputy Minister of Natural Resources for the Province of Saskatchewan, has been appointed Vice President and General Manager.

While the outlook in the building trade for 1970 is still clouded by financial pressures, your Company is in a good position to take advantage of any upturn in market demand for treated and untreated timber products.

I take this opportunity to once again thank an efficient and loyal staff for their efforts during the past year.

On behalf of the Board,

ROBERT J. PRETTIE,
Chairman.

March 18, 1970

NORTHERN TAR, CHEMICAL AND WOOD LIMITED

(Incorporated under the laws of the Province of Ontario)

CONSOLIDATED BALANCE SHEET

(with comparative figures for 1968)

ASSETS

	1969	1968
CURRENT		
Cash - - - - -	\$ 13,748	\$ 56,156
Accounts receivable - - - - -	932,084	1,146,608
Unadjusted insurance claim - - - - -	—	83,829
Inventories at lower of cost and net realizable value - - - - -	1,996,822	1,633,918
Work in progress at lower of cost and net realizable value - - - - -	780,774	525,827
Development grants and loan (note 7) - - - - -	48,061	8,560
Special refundable tax - - - - -	2,433	10,977
Cash surrender value of life insurance - - - - -	4,514	69,694
Prepaid expenses - - - - -	32,087	19,665
Overpayment of income taxes (note 3) - - - - -	71,915	—
	<u>3,882,438</u>	<u>3,555,234</u>
SPECIAL REFUNDABLE TAX - - - - -	—	1,056
INVESTMENTS AND DEPOSITS AT COST - - - - -	14,500	14,500
FIXED (note 2)		
Land, buildings, road, machinery and equipment at cost - - - - -	5,941,523	5,368,062
Less: Accumulated depreciation - - - - -	3,313,703	3,301,129
	<u>2,627,820</u>	<u>2,066,933</u>
DEFERRED CHARGES		
Organization and financing costs less amortization - - - - -	149,040	139,080
Goodwill and patent rights at cost - - - - -	14,491	14,491
	<u>163,531</u>	<u>153,571</u>
EXCESS OF COST OF INVESTMENT IN SUBSIDIARY COMPANIES OVER NET BOOK VALUE (note 2) - - - - -	98,504	98,504
	<u>\$6,786,793</u>	<u>\$5,889,798</u>

Approved by the Board:

R. J. PRETTIE, *Director*

D. G. SINCLAIR, *Director*

AUDITOR

To the Shareholders of
NORTHERN TAR, CHEMICAL AND WOOD LIMITED.

We have examined the consolidated balance sheet of Northern Tar, Chemical and Wood Limited and its subsidiaries as at December 31, 1969 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Thunder Bay, Ontario,
January 27, 1970.

(The notes appended hereto form a part of the consolidated financial statements)

D LIMITED and its subsidiary companies

(of the Province of Ontario)

ET AS AT DECEMBER 31, 1969

(figures for 1968)

LIABILITIES

	<u>1969</u>	<u>1968</u>
CURRENT		
Bank advances (secured) - - - - -	\$1,734,145	\$ 686,272
Accounts payable and accrued liabilities - - - - -	670,015	794,349
Current instalment of long-term debt - - - - -	125,000	110,000
Income taxes payable (note 3) - - - - -	—	132,878
Dividends payable - - - - -	13,748	56,156
	<u>2,542,908</u>	<u>1,779,655</u>
LONG-TERM DEBT (less current instalment) (note 4)		
7.80% secured debenture due December 15, 1983 payable in annual instalments	1,380,000	1,490,000
8% mortgage payable in quarterly principal instalments of \$3,750, due March 1, 1972 - - - - -	18,650	—
	<u>1,398,650</u>	<u>1,490,000</u>
DEFERRED INCOME TAXES (note 5) - - - - -	<u>207,713</u>	<u>59,963</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL

Authorized:

96,349 — preference shares with par value of \$25 each,
issuable in series (note 6)

1,000,000 — common shares without par value

Issued and fully paid:

32,349 — \$1.70 cumulative, redeemable, preference shares,
Series A (note 6) - - - - -

420,000 — common shares (600 shares issued for cash of \$3,540 in 1969;
1,000 shares issued for cash of \$2,500 in 1968) - - - - -

	808,725	836,225
	860,040	856,500
	<u>1,668,765</u>	<u>1,692,725</u>
RETAINED EARNINGS - - - - -	<u>968,757</u>	<u>867,455</u>
	<u>2,637,522</u>	<u>2,560,180</u>
	<u>\$6,786,793</u>	<u>\$5,889,798</u>

REPORT

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except regarding the appraisal of fixed assets (see note 2) with which we concur.

(part of the financial statements)

CLARKSON, GORDON & Co.
Chartered Accountants.

CONSOLIDATED STATEMENT OF EARNINGS

year ended December 31, 1969

(with comparative figures for 1968)

	1969	1968
SALES - - - - -	\$8,495,284	\$8,963,711
COST OF SALES (note 1) - - - - -	7,171,430	7,233,990
GROSS EARNINGS FROM OPERATIONS - - - - -	1,323,854	1,729,721
OPERATING EXPENSES		
Administrative and general - - - - -	428,020	444,649
Directors' and senior officers' remuneration - - - - -	94,044	138,714
Depreciation - - - - -	276,662	229,029
	798,726	812,392
NET EARNINGS FROM OPERATIONS - - - - -	525,128	917,329
FINANCIAL EXPENSES		
Debentures — interest - - - - -	124,253	64,561
— amortization of financing costs - - - - -	8,178	5,534
Other interest and discounts - - - - -	139,253	91,089
	271,684	161,184
	253,444	756,145
OTHER INCOME - - - - -	12,601	37,707
NET EARNINGS BEFORE INCOME TAXES - - - - -	266,045	793,852
PROVISION FOR INCOME TAXES		
Income taxes payable (note 3) - - - - -	84,695	353,913
Deferred income taxes (note 5) - - - - -	53,772	59,963
	138,467	413,876
	127,578	379,976
EXTRAORDINARY ITEMS (note 8) - - - - -	108,378	(13,335)
NET EARNINGS FOR THE YEAR - - - - -	\$ 235,956	\$ 366,641

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

year ended December 31, 1969

(with comparative figures for 1968)

	1969	1968
RETAINED EARNINGS, January 1 - - - - -	\$ 867,455	\$ 732,824
Add: Net earnings for the year - - - - -	235,956	366,641
Discount on redemption of preference shares - - - - -	4,624	3,200
	1,108,035	1,102,665
Less: Dividends — common shares - - - - -	83,940	167,460
— preference shares - - - - -	55,338	57,190
Adjustments applicable to prior years - - - - -	—	10,560
	139,278	235,210
RETAINED EARNINGS, December 31 - - - - -	\$ 968,757	\$ 867,455

(The notes appended hereto form an integral part of the financial statements)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

year ended December 31, 1969

(with comparative figures for 1968)

	<u>1969</u>	<u>1968</u>
SOURCE OF FUNDS		
Net earnings for the year - - - - -	\$ 235,956	\$ 366,641
Add: Charges deducted therefrom, not requiring an outlay of funds		
Depreciation - - - - -	276,662	229,029
Deferred income taxes - - - - -	147,750	59,963
Amortization of financing expense - - - - -	8,178	5,534
Investments and deposits written off - - - - -	—	18,335
Total funds from operations - - - - -	668,546	679,502
Other		
Issue of common shares - - - - -	3,540	2,500
Special refundable tax - - - - -	1,056	18,211
Ontario Development Corporation loan (note 7) - - -	298,561	89,583
Debenture issue - - - - -	—	650,000
Mortgage payable - - - - -	50,000	—
	1,021,703	1,439,796
APPLICATION OF FUNDS		
Fixed assets purchased (net) - - - - -	1,136,110	612,087
Long-term debt retirement - - - - -	141,350	110,000
Redemption of preference shares - - - - -	22,876	16,050
Dividends		
Common shares - - - - -	83,940	167,460
Preference shares - - - - -	55,338	57,190
Financing costs - - - - -	18,138	—
Adjustments applicable to prior years - - - - -	—	2,947
	1,457,752	965,734
INCREASE (DECREASE) IN WORKING CAPITAL		
FOR THE YEAR - - - - -	(436,049)	474,062
Add: Working capital, January 1 - - - - -	1,775,579	1,301,517
WORKING CAPITAL, December 31 - - - - -	<u>\$1,339,530</u>	<u>\$1,775,579</u>

(The notes appended hereto form an integral part of the financial statements)

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 1969

NOTE 1. Insurance Claim

In November 1968 a fire destroyed the main lumber sawmill of Northern Wood Preservers, Limited, a subsidiary. The insurance claim proceeds were received in 1969 and have been recorded in the accounts as follows:

(a) The portion of the business interruption claim applicable to the year ended December 31, 1969 has been credited to cost of sales - - - - -	\$251,698
(b) Removal of net book value of fixed assets destroyed - - - - -	63,986
(c) Replacement of inventory of supplies, demolition costs, etc. - - - - -	66,147
(d) Excess of insurance proceeds over book value of fixed assets destroyed shown as an extraordinary item on the statement of earnings (less applicable taxes) - - - - -	202,357
	<u>\$584,188</u>

NOTE 2. Fixed Assets

In prior years, the fixed assets of Northern Wood Preservers, Limited were revalued on two occasions to approximate current appraisal values — the appraisal increment being \$500,000 in 1963 and a further \$1,000,000 in 1965. Subsequent to the first appraisal Northern Tar, Chemical and Wood Limited acquired all the shares of Northern Wood Preservers, Limited at a cost which was \$401,496 less than the recorded net book value of that company.

In 1969 the directors of Northern Wood Preservers, Limited have decided to revert to the more common accounting policy of carrying all fixed assets at original cost. As a result of this decision:

- The carrying value of fixed assets has been reduced by \$1,500,000
- The amount formerly shown in the consolidated balance sheet described as "Excess of appraised value of fixed assets over cost — \$1,000,000" has been eliminated
- The credit balance in the consolidated balance sheet described as "Excess of net book value of subsidiary companies over cost of investment therein — \$401,496" has been adjusted by \$500,000, and becomes a debit balance described as "Excess of cost of investment in subsidiary over book value of net assets acquired — \$98,504".

For comparative purposes, the preceding year has been revised accordingly. A new appraisal of the assets of Northern Wood Preservers, Limited as at October 17, 1969, shows values which are \$3,189,454 in excess of the net book value at which they are now carried in this consolidated balance sheet.

NOTE 3. Income Taxes

In determining its estimated income tax liability for the years 1963 to 1966 inclusive Northern Wood Preservers, Limited deducted interest and financing charges on its secured debentures. The Department of National Revenue has issued re-assessments for the taxation years 1963 to 1966 inclusive under which there has been disallowed \$180,098 of such interest and financing charges. It is understood that the re-assessment for the 1963 taxation year will be eliminated. The company intends to appeal against the re-assessments for the years 1964 to 1966 inclusive, and the additional tax payable, if any, will be a matter to be determined by the Courts.

No corresponding re-assessments have been issued by the Ontario Corporations Tax Branch.

Should the company be unsuccessful the combined federal and provincial taxes would aggregate \$93,651 excluding interest. Pending settlement, this amount is not included in the balance sheet.

NOTE 4. Long-Term Debt

Northern Wood Preservers, Limited has issued a 7.80% secured debenture dated December 23, 1968 in the aggregate principal amount of \$1,600,000 maturing December 15, 1983 of which \$1,490,000 is presently outstanding. This debenture is payable \$110,000 on December 15 in each of the years 1970 to 1978 inclusive and \$100,000 on December 15 in each of the years 1979 to 1983 inclusive.

NOTE 5. Deferred Income Taxes

A. Deferred Tax Credit

The deferred tax credit of \$207,713 results from the adoption in 1968 of the tax allocation basis of computing income taxes.

B. Cumulative Tax Deferments

Unrecorded deferred income tax credits accumulating prior to the adoption of the income tax allocation basis in 1968 amounts to \$265,595.

NOTE 6. Purchase Fund for Redemption of Preference Shares

On or before March 1 in each year commencing with the year 1966, the company must set aside a purchase fund of \$20,000 for the purchase of preference shares for cancellation, until the said amounts set aside and not used or applied equal \$80,000. Since March 1, 1966, 3,651 preference shares have been purchased for cancellation at an aggregate cost of \$78,818.

NOTE 7. Contingent Liability

Northern Wood Preservers, Limited has entered into a forgivable loan agreement with the Ontario Development Corporation dated April 25, 1968 amounting to \$89,583 of which \$80,625 is presently outstanding. Subject to the fulfilment of certain specified conditions, 10% of the loan is to be forgiven in each of the years 1969 to 1973 inclusive and the balance forgiven in 1974.

The subsidiary company has entered into a second agreement with the Ontario Development Corporation dated May 29, 1969. Under the terms of this agreement the company has received \$250,500 as an interest free forgivable loan and a further \$48,061 is receivable provided the company completes its capital expenditure programme approved under the loan agreement. Terms of forgiveness are 10% one year after the last loan payment is received and 10% in each of the next four years with the balance in the next subsequent year.

NOTE 8. Extraordinary Items

The extraordinary items are:

- 1969 — Excess of insurance proceeds on assets destroyed over net book value — \$202,357 less deferred income tax of \$93,979.
- 1968 — Loss on disposal of investments.



NORIAR

NORTHERN TAR, CHEMICAL AND WOOD LIMITED